



US Department  
of Transportation  
**Maritime  
Administration**

**MANUAL OF ORDERS**

**MARITIME ADMINISTRATIVE ORDER**

REVOKES

MAO 900-3, dtd.  
8-5-83

NO.

900-3

EFFECTIVE DATE

December 5, 1985

SUBJECT

**INTERNAL CONTROL AND ACCOUNTING SYSTEMS**

Section 1. Purpose and Scope:

1.01 Purpose -- This order implements OMB Circulars A-123, Internal Control Systems, and A-127, Financial Management Systems, and DOT Order 5100.4A, Department of Transportation Internal Control and Accounting Systems, within the Maritime Administration.

1.02 Scope -- This order applies to all program, financial, and administrative activities as well as to all organizational levels of the Maritime Administration. However, this order does not apply to such matters as statutory development or interpretation, determination of program need, resource allocation, rulemaking, or other discretionary policymaking processes of the Maritime Administration.

Section 2. Policy:

It is the policy of the Maritime Administration to maintain effective systems of internal accounting, administrative and program control which are consistent with General Accounting Office standards. New programs shall be designed to incorporate effective systems of internal control. All systems shall be evaluated on an ongoing basis in accordance with guidelines issued by the Director, Office of Management and Budget (OMB). Weaknesses, when detected, shall be promptly corrected. Managers at all levels shall involve themselves in assuring the adequacy of controls. Program and administrative managers are specifically responsible for maintaining adequate internal control systems as an integral part of the functions under their jurisdiction.

Section 3. General Information and Definitions:

3.01 Definition of Terms--see appendix 1, "Glossary."

3.02 The Federal Managers' Financial Integrity Act of 1982, 31 U.S.C. 3512, (Integrity Act) among other things, requires agency heads to report, by December 31 of each year, to the President and the Congress on whether or not an agency's accounting and administrative internal control systems are adequate to assure that: (1) obligations and costs are in compliance with applicable laws; (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. The Integrity Act requires any material weaknesses, along with plans and schedules for corrective action, to be identified in the report.

3.03 The General Accounting Office (GAO) document, "Standards for Internal Controls in the Federal Government," dated June 1, 1983, provides internal control standards required by the Integrity Act. These standards are summarized in appendix 2 of this order and apply to all financial management and program and administrative performance, including the results thereof. The standards are not intended to limit or interfere with duly granted authority related to development of legislation, rulemaking, or other discretionary policymaking in an agency.

3.04 The GAO's Statement of Accounting Principles and Standards, dated April 18, 1983, specifies the principles and standards that apply to accounting systems.

3.05 The OMB Circular No. A-123, Internal Control Systems, prescribes policies and standards to be followed by executive departments and agencies in establishing, evaluating, improving, and reporting on internal controls in their program and administrative activities.

3.06 The OMB's "Internal Control Guidelines" document, dated December 1982, provides guidelines to be used by agencies in performing self-evaluation of, improving, and reporting on agency internal control systems.

3.07 The OMB Circular No. A-127, Financial Management Systems, prescribes policies and procedures to be followed by executive departments and agencies in developing, operating, and reporting on financial management systems.

#### Section 4. Responsibilities:

4.01 The Associate Administrator for Administration is designated as the Maritime Administration official responsible for coordinating the implementation of the Integrity Act, OMB Circulars A-123 and A-127, and the GAO standards for internal control and accounting systems.

4.02 For programs and administrative activities under their jurisdiction, Associate Administrators, Office Directors, Region Directors, and Superintendent, U.S. Merchant Marine Academy, shall:

- 1 Establish and maintain systems of internal control which meet GAO's standards for internal control and assure that the objectives of internal control as outlined in the Integrity Act are achieved. This responsibility includes determining that the systems are documented, are functioning as prescribed, and are modified, as appropriate, to meet changes in conditions and to correct any control weaknesses however identified.
- 2 On their own initiative or as designated, conduct or assist in the conduct of vulnerability assessments and internal control reviews for programs and activities under their jurisdiction. (A copy of each assessment report and review report, accompanied by Form DQT F 5100.1, "U.S. Department of Transportation Internal Controls Program - Corrective Action Record," for each control weakness identified in the reports, shall be forwarded to the Office of Management Services and Procurement.) Among other things, the need for and currency of directives governing or impacting the programs and activities shall be considered in each assessment and review.

4.03 The Director, Office of Management Services and Procurement shall:

- 1 Develop guidelines for conducting vulnerability assessments and internal control reviews consistent with the OMB "Internal Control Guidelines." Assure consistency in the application of the guidelines.
- 2 Recommend to the Associate Administrator for Administration:
  - (1) the schedule of and officials responsible for the conduct of biennial vulnerability assessments of Maritime Administration programs and activities;
  - (2) the rankings of programs and activities in terms of relative vulnerability; and
  - (3) based on the results of the assessments and other factors, a schedule for internal control reviews along with officials responsible for performing such reviews.
- 3 Coordinate, monitor, and, as assigned, conduct vulnerability assessments and internal control reviews.
- 4 In accordance with DOT Order 5100.4A, prepare the biennial report to the Assistant Secretary for Administration identifying the Maritime Administration's assessable units, segmentation plans, and vulnerability assessment action plans.
- 5 Prepare for signature of the Maritime Administrator the annual section 2 assurance report to the Secretary of Transportation in compliance with the Integrity Act as prescribed in DOT Order 5100.4A, OMB Circular A-123, and other applicable directives.
- 6 Coordinate matters concerning internal control with applicable officials and the Office of the Inspector General, when appropriate.

4.04 The Director, Office of Accounting shall:

- 1 As assigned, conduct vulnerability assessments and internal control reviews of the financial activities associated with MARAD programs and administrative operations.
- 2 Prepare for signature of the Maritime Administrator the annual section 4 assurance report to the Secretary of Transportation in compliance with the Integrity Act as prescribed in DOT Order 5100.4A, OMB Circular A-127, and other applicable directives.
- 3 Develop an inventory of accounting systems subject to the provisions of section 4 of the Integrity Act and recommend a schedule of when each system will be reviewed (Departmental policy requires that accounting system reviews shall be performed on an annual basis) to the Associate Administrator for Administration.

- 4 Assure that the accounting systems are reviewed, according to the approved schedule, for conformance with applicable principles, standards, and related requirements, and that any required corrective actions are taken on a timely basis. Guidance provided by the Assistant Secretary for Administration will be used for reviewing accounting systems.
- 5 As prescribed in OMB Circular A-127, develop a financial management system directive; establish a financial systems inventory and recommend the designation of a manager for each system; annually review the Maritime Administration's financial systems; and develop and maintain a five-year Maritime Administration financial management system plan.

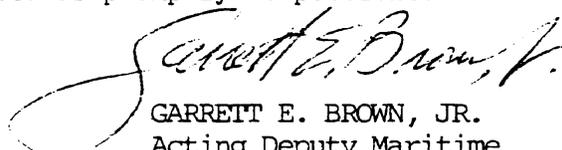
Section 5. Procedures:

5.01 Vulnerability assessments shall be conducted as circumstances warrant, but not less frequently than biennially and shall be conducted in accordance with guidance provided by the Office of Management Services and Procurement. That office shall summarize the results of the biennial assessments for submittal to the Associate Administrator for Administration.

5.02 Based on the results of the vulnerability assessments, management priorities, resource constraints, etc., internal control reviews shall be scheduled and conducted to assess the adequacy and effectiveness of internal controls and compliance with the objectives and standards of OMB Circular A-123 and GAO's standards for internal control. These reviews shall be conducted in accordance with guidance developed by the Office of Management Services and Procurement.

5.03 Recommendations resulting from vulnerability assessments and internal control reviews and significant weaknesses identified shall be considered by management on a timely basis and appropriate corrective actions taken as promptly as possible. Based on form DOT F 5100.1, the Office of Management Services and Procurement shall establish and maintain a follow-up system that logs and tracks recommendations and target dates, provide assistance for development of plans for implementation of the corrections, and monitor whether the changes are made as scheduled.

5.04 Program and administrative managers will be held accountable for the effectiveness with which they carry out their responsibilities for internal control. Accordingly, performance standards in personnel evaluations for these managers must reflect responsibilities related to internal control systems. Notations will be included for positive accomplishments related to internal controls. Appropriate disciplinary action will be taken for violations of internal controls. Internal control weaknesses, however identified, will be corrected as promptly as possible.

  
GARRETT E. BROWN, JR.  
Acting Deputy Maritime  
Administrator

GLOSSARY

Accounting System -- The system for recording, classifying, and summarizing information on financial position and operations.

Assessable Unit -- A programmatic, administrative, or financial function or subdivision thereof which is to be the subject of a vulnerability assessment.

Financial Management System -- The total of agency financial systems, both manual and automated, for planning, budget formulation and execution, program and administrative accounting, and audit; as well as all other systems for recording and classifying financial data and reporting financial management information, including purchasing, property, inventory, etc.

Inherent Risk -- The inherent potential of an activity for waste, loss, unauthorized use, or misappropriation due to the nature of an activity itself.

Internal Control -- The steps that an agency takes to provide reasonable assurance that obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Internal Control Review -- A detailed examination of an activity, program, or an element thereof to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks in a cost effective manner.

Internal Control System -- The sum of the organization's methods and measures used to achieve the objectives of internal control.

Material Weakness -- A situation in which the designed procedures or degree of operational compliance therewith does not provide reasonable assurance that the objectives of internal control specified in the Integrity Act are being accomplished.

Vulnerability Assessment -- A review of the susceptibility of a program or function to the occurrence of waste, loss, unauthorized use, or misappropriation.

## INTERNAL CONTROL STANDARDS

The internal control standards define the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which systems are to be evaluated. These internal control standards apply to all operations and administrative functions but are not intended to limit or interfere with duly granted authority related to development of legislation, rulemaking, or other discretionary policymaking in an agency.

### GENERAL STANDARDS

1. Reasonable Assurance. Internal control systems shall provide reasonable assurance that the objectives of the system will be accomplished.
2. Supportive Attitude. Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.
3. Competent Personnel. Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal controls.
4. Control Objectives. Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.
5. Control Techniques. Internal control techniques are to be effective and efficient in accomplishing their internal control objectives.

### SPECIFIC STANDARDS

1. Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.
2. Recording of Transactions and Events. Transactions and other significant events are to be promptly recorded and properly classified.
3. Execution of Transactions and Events. Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
4. Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.
5. Supervision. Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.

6. Access to and Accountability for Resources. Access to resources and records is limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

AUDIT RESOLUTION STANDARD

Prompt Resolution of Audit Findings. Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.